

**Minutes of the Meeting of the
Board of Directors of
Tennessee Education Lottery Corporation**

August 4, 2003

A meeting of the Board of Directors (the "Board") of Tennessee Education Lottery Corporation (the "Corporation") was held at the Tennessee Tower on August 4, 2003. The following members of the Board were present in person:

Denny Bottorff
Morris Fair
Jim Hill
Marvell Mitchell
Jim Ripley
Deborah Story
Claire Tucker

Chairman of the Board of the Corporation, Denny Bottorff, called the meeting to order at 1:00 p.m. (central time).

Upon motion duly made and seconded, the Board voted to approve the Minutes from its meeting of July 28, 2003, as submitted.

Mr. Bottorff then provided introductory remarks to the Board, beginning by telling Directors about his trip to visit the Georgia lottery on Thursday, July 31, 2003 with Anna Windrow, Senior Advisor to the Governor. Mr. Bottorff met with Rebecca Paul, CEO of the Georgia lottery, and told the Board that he believes she is acting in good faith in proposing an alliance between the Tennessee and Georgia lotteries. In addition, Mr. Bottorff found that Ms. Paul has no preconceived notion of how the alliance would be structured, but that it is not an attempt by Georgia to take over the Tennessee lottery. Mr. Bottorff found that there are two components to Ms. Paul's idea: (1) Georgia will offer Ms. Paul's and her staff's expertise early on so the Tennessee lottery can get up and running faster than it could on its own, aiming to sell its first ticket no later than December 1, 2003; and (2) Tennessee and Georgia will combine their collective buying power to negotiate cheaper contracts for goods and services. Mr. Bottorff concluded by stating his opinion that this proposition could be beneficial to Tennessee and is worth considering, along with considering how Tennessee would start its lottery without Georgia's help.

Mr. Bottorff then discussed the law firm search. He recommended asking two local private entities' General Counsels to aid the search committee, because General Counsels have expertise in hiring outside counsel. These two general counsels would serve in the capacity of expert citizen advisors to the committee, which is a nonvoting capacity. He suggested Susan Lanigan, Vice president, General Counsel and Corporate Secretary at Dollar General, and David Williams, Vice Chancellor, General Counsel, and Secretary of Vanderbilt University to serve in this expert citizens' advisory capacity.

Mr. Bottorff then clarified that the Board will probably not be chartering a plane to visit other lotteries unless that would be the most cost-effective means of travel. In addition, he stressed that the temporary line of credit secured for the Board by the Governor's office in fact will be temporary and the Board will be developing an RFP for permanent banking services once it has a better idea of the scope of its retailer network. Mr. Bottorff then spoke of the need for a public relations firm and stated that Bob Thompson has drafted an RFP on this, which will be circulated to Directors for their comments; Will Pinkston, on loan to the Corporation from the Governor's office, also will be working on this.

Ms. Tucker then discussed an updated timeline of decisions for the Board. She stressed moving up the timing of games services economic analysis and retailer signup, and noted that the timeline follows two parallel tracks, one of which deals with a solo startup and one which deals with a strategic alliance with Georgia.

Ms. Tucker recommended hiring an accounting firm to perform an economic analysis of the Georgia partnership proposition, and stated that four major accounting firms have expressed interest in this. This economic analysis would include top-line revenue impact, cost reductions, and long-term impact, resulting in the determination of whether a partnership with Georgia would be quicker and cheaper than a solo startup. The criteria Ms. Tucker will consider in hiring a firm will be the firm's experience in evaluating lotteries and lottery vendor contracts. Ms. Tucker would like to hire a firm by August 11, 2003, with delivery of its analysis to the Board by early September 2003.

Upon motion duly made and seconded, the Board delegated authority to Ms. Tucker to hire an accounting firm to perform an economic analysis of a partnership with Georgia, with the contract not to exceed \$75,000.

Ms. Tucker then presented the Committee on Lottery Visits' recommendations to the Board. Ms. Tucker and the other Committee member, Mr. Mitchell, recommended that as many Board members as possible visit Georgia, and that smaller groups visit Massachusetts, Connecticut, and the Atlantic Lottery Corporation in Canada. If the Directors feel that more information is necessary after visiting those four states, the Committee recommends that the Board visit Kentucky, Texas, South Carolina, and New Mexico. These recommendations were based on the following six factors: (1) diverse vendors; (2) variety of corporate structures (quasi-corporate and state agency); (3) per capita net proceeds; (4) similar population to Tennessee; (5) outsourced and in-house functions; (6) similar statutes to Tennessee.

Upon motion duly made and seconded, the Board accepted the Committee's recommendations on states to visit. Mr. Bottorff requested that as many Directors as possible visit the Georgia lottery on August 7, 2003. Mr. Bottorff then asked Mr. Hill to schedule visits to Massachusetts and Connecticut; and Mr. Hill suggested August 11, 2003 for these visits, with Mr. Mitchell joining him, if the lotteries are available to host their visits on this date. Mr. Bottorff suggested visiting the Atlantic Lottery on August 13, 2003, along with Mr. Fair and Ms. Tucker. Ms. Story will be out of town from August 9 through August 13 and will be unavailable for visits during that period.

Bob Thompson, an attorney at Bass, Berry & Sims PLC, reiterated that these visits are site visits and thus are not subject to the Open Meetings Act requirements.

Ms. Tucker next addressed the Board regarding the Corporation's line of credit. Ms. Tucker informed the Board that documents addressing the line of credit were being drafted and that she planned to recommend the line of credit for final approval by the Attorney General's Office on Thursday, August 7, 2003.

Mr. Bottorff next introduced Jim Hill, who addressed the Board regarding the Corporate Code of Conduct. Mr. Hill described the telephonic conference that took place on July 31, 2003 between Mr. Hill and Mr. Fair.

Mr. Hill next introduced Mr. Thompson, who addressed the Board to discuss several of the changes made to the Corporate Code of Conduct. Mr. Thompson emphasized the importance of the Board acting as a single unit, not individuals, when speaking to the potential Retailers or Vendors. Mr. Thompson also noted that a section was added to the Corporate Code of Conduct regarding the relationship between the Open Meetings Act and Open Records Act and Corporation operations that are deemed confidential. Mr. Thompson then addressed the policy regarding conflicts of interest. Mr. Thompson explained that any conflict of interest must be disclosed to the Board and that the Director must not participate in any discussion and must abstain from voting in any matter in which the conflict of interest is implicated. Mr. Thompson then reiterated that there

should be no contact between individual Board members and Vendors or Retailers and that any such contact should be reported to counsel. Mr. Thompson then addressed the anti-nepotism policy contained in the Corporate Code of Conduct. Mr. Thompson stressed that this was a standard policy based on the anti-nepotism policy applicable to state agencies. Mr. Thompson explained to the Board that the policy regarding outside employment was not applicable to directors. Mr. Thompson then addressed the Corporate Code of Conduct section addressing political activities, which was slightly narrowed by the Committee.

Mr. Hill then expressed his belief that the Corporate Code of Conduct was comprehensive and that, after reading it, both employees and board members would know what was expected of them.

Upon motion duly made and seconded, the Board voted to adopt the Corporate Code of Conduct.

Mr. Bottorff next introduced Jim Ripley, who addressed the Board regarding the law firm selection process. Mr. Hill described the telephonic conference that took place on July 30, 2003 between Mr. Ripley, Mr. Bottorff and Ms. Story. Mr. Ripley expressed his belief that the law firm application is fair and comprehensive and explained the impending deadlines and schedule of the law firm selection process. Mr. Ripley further explained that the Board retains the right and ability to leave the law firm selected through this process and hire specialized legal counsel if necessary. Mr. Fair asked Mr. Ripley if the Committee had considered asking the selected law firm to waive any fees required for it to work with current counsel to get up to speed. Mr. Hill and Ms. Tucker each expressed a desire to see the selected law firm work with current counsel as much as possible. Ms. Tucker emphasized that the relationship between the Corporation and the selected law firm would be a business relationship; therefore, the new law firm should be paid for its work in an effort to maximize the effectiveness and efficiency of the transition period.

Upon motion duly made and seconded, the Board voted to approve a citizen's advisory counsel, which will use its expertise in hiring outside counsel to advise the Board when selecting a law firm.

Mr. Bottorff next introduced Deborah Story. Ms. Story discussed a draft of a position description for the CEO of the Corporation. Ms. Story assured the Board that all of the statutory requirements for the CEO were included in the description. Mr. Hill recommended that experience with a quasi-state lottery be included in the draft as a preferred criterion. The Board members also agreed that the CEO should have demonstrated success as a lottery executive.

Mr. Bottorff then questioned Ms. Story about her thoughts regarding the use of an executive search firm to assist the Board in finding a CEO. Ms. Story expressed her opinion that an executive search firm was not necessary given the limited number of qualified individuals and the number of individuals that the Board is already aware of who may be qualified. Ms. Story explained that a research firm might be able to quickly assist the board in gathering a list of potential candidates at a more reasonable cost. The research firm will identify potential candidates and the Board will evaluate and recruit the eventual CEO.

Upon motion duly made and seconded, the Board voted to authorize Ms. Story to hire a research firm to assist the board in compiling a list of potential CEO candidates, with the contract not to exceed \$75,000.

Mr. Bottorff then explained the next steps and made several charges to the Board members. Mr. Bottorff charged Ms. Story with studying organizational models to discuss at the next Board meeting scheduled for August 14, 2003. Mr. Bottorff charged Ms. Tucker with examining a preliminary budget. Mr. Bottorff expressed his desire for the Board members to share their experiences from trips to other lotteries at a Board meeting scheduled for August 18, 2003. Mr. Bottorff charged Mr. Hill with developing a series of common questions to ask on his visits to lotteries in Massachusetts and Connecticut. Mr. Bottorff explained that the trip to Georgia Lottery Corporation should focus on how an alliance with Georgia would allow the Corporation to sell tickets by December of 2003. Mr. Bottorff charged Ms. Tucker with meeting with Mr. Thompson to discuss any inconsistencies in the Board's timeline. Mr. Bottorff then explained to the Board that no

committees other than those committees made up of Board members (such as the Minority Business Council or Retailer Advisory Council), have been appointed to represent the Board, contrary to rumors some may have heard. Mr. Bottorff then charged Mr. Mitchell with examining the Board's duties regarding minority business participation.

There being no further business to come before the Board, it was, upon motion duly made and seconded, adjourned at 2:50 p.m.

Claire Tucker, Secretary